

PUBLIC LAW 105-34—AUG. 5, 1997

TAXPAYER RELIEF ACT OF 1997

*Public Law 105–34
105th Congress

An Act

Aug. 5, 1997
[H.R. 2014]

To provide for reconciliation pursuant to subsections (b)(2) and (d) of section 105 of the concurrent resolution on the budget for fiscal year 1998.

Taxpayer Relief
Act of 1997.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; ETC.

26 USC 1 note.

(a) **SHORT TITLE.**—This Act may be cited as the “Taxpayer Relief Act of 1997”.

(b) **AMENDMENT OF 1986 CODE.**—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

26 USC 15 note.

(c) **SECTION 15 NOT TO APPLY.**—No amendment made by this Act shall be treated as a change in a rate of tax for purposes of section 15 of the Internal Revenue Code of 1986.

26 USC 6654
note.

(d) **WAIVER OF ESTIMATED TAX PENALTIES.**—No addition to tax shall be made under section 6654 or 6655 of the Internal Revenue Code of 1986 for any period before January 1, 1998, for any payment the due date of which is before January 16, 1998, with respect to any underpayment attributable to such period to the extent such underpayment was created or increased by any provision of this Act.

(e) **TABLE OF CONTENTS.**—The table of contents for this Act is as follows:

Sec. 1. Short title; etc.

TITLE I—CHILD TAX CREDIT

Sec. 101. Child tax credit.

TITLE II—EDUCATION INCENTIVES

Subtitle A—Tax Benefits Relating to Education Expenses

Sec. 201. Hope and lifetime learning credits.

Sec. 202. Deduction for interest on education loans.

Sec. 203. Penalty-free withdrawals from individual retirement plans for higher education expenses.

Subtitle B—Expanded Education Investment Savings Opportunities

PART I—QUALIFIED TUITION PROGRAMS

Sec. 211. Modifications of qualified State tuition programs.

PART II—EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS

Sec. 213. Education individual retirement accounts.

Subtitle C—Other Education Initiatives

Sec. 221. Extension of exclusion for employer-provided educational assistance.

*Note: This is a hand enrollment pursuant to Public Law 105–32.

- Sec. 222. Repeal of limitation on qualified 501(c)(3) bonds other than hospital bonds.
- Sec. 223. Increase in arbitrage rebate exception for governmental bonds used to finance education facilities.
- Sec. 224. Contributions of computer technology and equipment for elementary or secondary school purposes.
- Sec. 225. Treatment of cancellation of certain student loans.
- Sec. 226. Incentives for education zones.

TITLE III—SAVINGS AND INVESTMENT INCENTIVES

Subtitle A—Retirement Savings

- Sec. 301. Restoration of IRA deduction for certain taxpayers.
- Sec. 302. Establishment of nondeductible tax-free individual retirement accounts.
- Sec. 303. Distributions from certain plans may be used without penalty to purchase first homes.
- Sec. 304. Certain bullion not treated as collectibles.

Subtitle B—Capital Gains

- Sec. 311. 20 percent maximum capital gains rate for individuals.
- Sec. 312. Exemption from tax for gain on sale of principal residence.
- Sec. 313. Rollover of gain from sale of qualified stock.
- Sec. 314. Amount of net capital gain taken into account in computing alternative tax on capital gains for corporations not to exceed taxable income of the corporation.

TITLE IV—ALTERNATIVE MINIMUM TAX REFORM

- Sec. 401. Exemption from alternative minimum tax for small corporations.
- Sec. 402. Repeal of separate depreciation lives for minimum tax purposes.
- Sec. 403. Minimum tax not to apply to farmers' installment sales.

TITLE V—ESTATE, GIFT, AND GENERATION-SKIPPING TAX PROVISIONS

Subtitle A—Estate and Gift Tax Provisions

- Sec. 501. Cost-of-living adjustments relating to estate and gift tax provisions.
- Sec. 502. Family-owned business exclusion.
- Sec. 503. Modifications to rate of interest on portion of estate tax extended under section 6166.
- Sec. 504. Extension of treatment of certain rents under section 2032A to lineal descendants.
- Sec. 505. Clarification of judicial review of eligibility for extension of time for payment of estate tax.
- Sec. 506. Gifts may not be revalued for estate tax purposes after expiration of statute of limitations.
- Sec. 507. Repeal of throwback rules applicable to certain domestic trusts.
- Sec. 508. Treatment of land subject to a qualified conservation easement.

Subtitle B—Generation-Skipping Tax Provision

- Sec. 511. Expansion of exception from generation-skipping transfer tax for transfers to individuals with deceased parents.

TITLE VI—EXTENSIONS

- Sec. 601. Research tax credit.
- Sec. 602. Contributions of stock to private foundations.
- Sec. 603. Work opportunity tax credit.
- Sec. 604. Orphan drug tax credit.

TITLE VII—INCENTIVES FOR REVITALIZATION OF THE DISTRICT OF COLUMBIA

- Sec. 701. Tax incentives for revitalization of the District of Columbia.

TITLE VIII—WELFARE-TO-WORK INCENTIVES

- Sec. 801. Incentives for employing long-term family assistance recipients.

TITLE IX—MISCELLANEOUS PROVISIONS

Subtitle A—Provisions Relating to Excise Taxes

- Sec. 901. General revenue portion of highway motor fuels taxes deposited into Highway Trust Fund.
- Sec. 902. Repeal of tax on diesel fuel used in recreational boats.

~~“(1) IN GENERAL. For purposes of determining whether any transfer is a generation skipping transfer, if—~~

~~“(A) an individual is a descendant of a parent of the transferor (or the transferor’s spouse or former spouse), and~~

~~“(B) such individual’s parent who is a lineal descendant of the parent of the transferor (or the transferor’s spouse or former spouse) is dead at the time the transfer (from which an interest of such individual is established or derived) is subject to a tax imposed by chapter 11 or 12 upon the transferor (and if there shall be more than 1 such time, then at the earliest such time),~~

~~such individual shall be treated as if such individual were a member of the generation which is 1 generation below the lower of the transferor’s generation or the generation assignment of the youngest living ancestor of such individual who is also a descendant of the parent of the transferor (or the transferor’s spouse or former spouse), and the generation assignment of any descendant of such individual shall be adjusted accordingly.~~

~~“(2) LIMITED APPLICATION OF SUBSECTION TO COLLATERAL HEIRS. This subsection shall not apply with respect to a transfer to any individual who is not a lineal descendant of the transferor (or the transferor’s spouse or former spouse) if, at the time of the transfer, such transferor has any living lineal descendant.”~~

~~(b) CONFORMING AMENDMENTS.—~~

~~(1) Section 2612(c) (defining direct skip) is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).~~

~~(2) Section 2612(c)(2) (as so redesignated) is amended by striking “section 2651(c)(2)” and inserting “section 2651(f)(2)”.~~

~~(c) EFFECTIVE DATE. The amendments made by this section shall apply to terminations, distributions, and transfers occurring after December 31, 1997.~~ 26 USC 2612 note.

TITLE VI—EXTENSIONS

SEC. 601. RESEARCH TAX CREDIT.

(a) IN GENERAL.—Paragraph (1) of section 41(h) (relating to termination) is amended—

(1) by striking “May 31, 1997” and inserting “June 30, 1998”, and

(2) by striking in the last sentence “during the first 11 months of such taxable year.” and inserting “during the 24-month period beginning with the first month of such year. The 24 months referred to in the preceding sentence shall be reduced by the number of full months after June 1996 (and before the first month of such first taxable year) during which the taxpayer paid or incurred any amount which is taken into account in determining the credit under this section.”.

(b) TECHNICAL AMENDMENTS.—

(1) Subparagraph (B) of section 41(c)(4) is amended to read as follows:

“(B) ELECTION.—An election under this paragraph shall apply to the taxable year for which made and all succeeding taxable years unless revoked with the consent of the Secretary.”.

(2) Paragraph (1) of section 45C(b) is amended by striking “May 31, 1997” and inserting “June 30, 1998”.

26 USC 41 note.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after May 31, 1997.

SEC. 602. CONTRIBUTIONS OF STOCK TO PRIVATE FOUNDATIONS.

(a) IN GENERAL.—Clause (ii) of section 170(e)(5)(D) (relating to termination) is amended by striking “May 31, 1997” and inserting “June 30, 1998”.

26 USC 170 note.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to contributions made after May 31, 1997.

SEC. 603. WORK OPPORTUNITY TAX CREDIT.

(a) EXTENSION.—Subparagraph (B) of section 51(c)(4) (relating to termination) is amended by striking “September 30, 1997” and inserting “June 30, 1998”.

(b) MODIFICATION OF ELIGIBILITY REQUIREMENT BASED ON PERIOD ON WELFARE.—

(1) IN GENERAL.—Subparagraph (A) of section 51(d)(2) (defining qualified IV-A recipient) is amended by striking all that follows “a IV-A program” and inserting “for any 9 months during the 18-month period ending on the hiring date.”.

(2) CONFORMING AMENDMENT.—Subparagraph (A) of section 51(d)(3) is amended to read as follows:

“(A) IN GENERAL.—The term ‘qualified veteran’ means any veteran who is certified by the designated local agency as being a member of a family receiving assistance under a food stamp program under the Food Stamp Act of 1977 for at least a 3-month period ending during the 12-month period ending on the hiring date.”.

(c) QUALIFIED SSI RECIPIENTS TREATED AS MEMBERS OF TARGETED GROUPS.—

(1) IN GENERAL.—Section 51(d)(1) (relating to members of targeted groups) is amended by striking “or” at the end of subparagraph (F), by striking the period at the end of subparagraph (G) and inserting “, or”, and by adding at the end the following new subparagraph:

“(H) a qualified SSI recipient.”.

(2) QUALIFIED SSI RECIPIENTS.—Section 51(d) is amended by redesignating paragraphs (9), (10), and (11) as paragraphs (10), (11), and (12), respectively, and by inserting after paragraph (8) the following new paragraph:

“(9) QUALIFIED SSI RECIPIENT.—The term ‘qualified SSI recipient’ means any individual who is certified by the designated local agency as receiving supplemental security income benefits under title XVI of the Social Security Act (including supplemental security income benefits of the type described in section 1616 of such Act or section 212 of Public Law 93-66) for any month ending within the 60-day period ending on the hiring date.”.

(d) PERCENTAGE OF WAGES ALLOWED AS CREDIT.—

(1) IN GENERAL.—Subsection (a) of section 51 (relating to determination of amount) is amended by striking “35 percent” and inserting “40 percent”.

(2) APPLICATION OF CREDIT FOR INDIVIDUALS PERFORMING FEWER THAN 400 HOURS OF SERVICES.—Paragraph (3) of section 51(i) is amended to read as follows:

“(3) INDIVIDUALS NOT MEETING MINIMUM EMPLOYMENT PERIODS.—

“(A) REDUCTION OF CREDIT FOR INDIVIDUALS PERFORMING FEWER THAN 400 HOURS OF SERVICE.—In the case of an individual who has performed at least 120 hours, but less than 400 hours, of service for the employer, subsection (a) shall be applied by substituting ‘25 percent’ for ‘40 percent’.

“(B) DENIAL OF CREDIT FOR INDIVIDUALS PERFORMING FEWER THAN 120 HOURS OF SERVICE.—No wages shall be taken into account under subsection (a) with respect to any individual unless such individual has performed at least 120 hours of service for the employer.”.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to individuals who begin work for the employer after September 30, 1997. 26 USC 51 note.

SEC. 604. ORPHAN DRUG TAX CREDIT.

(a) IN GENERAL.—Section 45C (relating to clinical testing expenses for certain drugs for rare diseases or conditions) is amended by striking subsection (e).

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to amounts paid or incurred after May 31, 1997. 26 USC 45C note.

~~TITLE VII INCENTIVES FOR REVITALIZATION OF THE DISTRICT OF COLUMBIA~~

~~SEC. 701. TAX INCENTIVES FOR REVITALIZATION OF THE DISTRICT OF COLUMBIA.~~

~~(a) IN GENERAL. Chapter 1 is amended by adding at the end the following new subchapter:~~

~~“Subchapter W District of Columbia Enterprise Zone~~

~~“Sec. 1400. Establishment of DC Zone.~~

~~“Sec. 1400A. Tax-exempt economic development bonds.~~

~~“Sec. 1400B. Zero percent capital gains rate.~~

~~“Sec. 1400C. First-time homebuyer credit for District of Columbia.~~

~~“SEC. 1400. ESTABLISHMENT OF DC ZONE.~~

~~“(a) IN GENERAL. For purposes of this title —~~

~~“(1) the applicable DC area is hereby designated as the District of Columbia Enterprise Zone, and~~

~~“(2) except as otherwise provided in this subchapter, the District of Columbia Enterprise Zone shall be treated as an empowerment zone designated under subchapter U.~~

~~“(b) APPLICABLE DC AREA. For purposes of subsection (a), the term ‘applicable DC area’ means the area consisting of —~~

~~“(1) the census tracts located in the District of Columbia which are part of an enterprise community designated under subchapter U before the date of the enactment of this subchapter, and~~

~~“(h) BASIS ADJUSTMENT. For purposes of this subtitle, if a credit is allowed under this section with respect to the purchase of any residence, the basis of such residence shall be reduced by the amount of the credit so allowed.”~~

~~“(i) TERMINATION. This section shall not apply to any property purchased after December 31, 2000.”~~

~~(b) CONFORMING AMENDMENTS.~~

~~(1) Subsection (d) of section 39 is amended by adding at the end the following new paragraph:~~

~~“(8) NO CARRYBACK OF DC ZONE CREDITS BEFORE EFFECTIVE DATE. No portion of the unused business credit for any taxable year which is attributable to the credits allowable under subchapter U by reason of section 1400 may be carried back to a taxable year ending before the date of the enactment of section 1400.”~~

~~(2) Subsection (a) of section 1016 is amended by striking “and” at the end of paragraph (25), by striking the period at the end of paragraph (26) and inserting “, and”, and by adding at the end thereof the following new paragraph:~~

~~“(27) in the case of a residence with respect to which a credit was allowed under section 1400C, to the extent provided in section 1400C(h).”~~

~~(c) CLERICAL AMENDMENT. The table of subchapters for chapter 1 is amended by adding at the end the following new item:~~

~~“Subchapter W. District of Columbia Enterprise Zone.”~~

~~(d) EFFECTIVE DATE. Except as provided in subsection (c), the amendments made by this section shall take effect on the date of the enactment of this Act.~~ 26 USC 39 note.

TITLE VIII—WELFARE-TO-WORK INCENTIVES

SEC. 801. INCENTIVES FOR EMPLOYING LONG-TERM FAMILY ASSISTANCE RECIPIENTS.

(a) IN GENERAL.—Subpart F of part IV of subchapter A of chapter 1 is amended by inserting after section 51 the following new section:

“SEC. 51A. TEMPORARY INCENTIVES FOR EMPLOYING LONG-TERM FAMILY ASSISTANCE RECIPIENTS.

“(a) DETERMINATION OF AMOUNT.—For purposes of section 38, the amount of the welfare-to-work credit determined under this section for the taxable year shall be equal to—

“(1) 35 percent of the qualified first-year wages for such year, and

“(2) 50 percent of the qualified second-year wages for such year.

“(b) QUALIFIED WAGES DEFINED.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified wages’ means the wages paid or incurred by the employer during the taxable year to individuals who are long-term family assistance recipients.

“(2) QUALIFIED FIRST-YEAR WAGES.—The term ‘qualified first-year wages’ means, with respect to any individual, qualified wages attributable to service rendered during the 1-year

period beginning with the day the individual begins work for the employer.

“(3) QUALIFIED SECOND-YEAR WAGES.—The term ‘qualified second-year wages’ means, with respect to any individual, qualified wages attributable to service rendered during the 1-year period beginning on the day after the last day of the 1-year period with respect to such individual determined under paragraph (2).

“(4) ONLY FIRST \$10,000 OF WAGES PER YEAR TAKEN INTO ACCOUNT.—The amount of the qualified first-year wages, and the amount of qualified second-year wages, which may be taken into account with respect to any individual shall not exceed \$10,000 per year.

“(5) WAGES.—

“(A) IN GENERAL.—The term ‘wages’ has the meaning given such term by section 51(c), without regard to paragraph (4) thereof.

“(B) CERTAIN AMOUNTS TREATED AS WAGES.—The term ‘wages’ includes amounts paid or incurred by the employer which are excludable from such recipient’s gross income under—

“(i) section 105 (relating to amounts received under accident and health plans),

“(ii) section 106 (relating to contributions by employer to accident and health plans),

“(iii) section 127 (relating to educational assistance programs) or would be so excludable but for section 127(d), but only to the extent paid or incurred to a person not related to the employer, or

“(iv) section 129 (relating to dependent care assistance programs).

The amount treated as wages by clause (i) or (ii) for any period shall be based on the reasonable cost of coverage for the period, but shall not exceed the applicable premium for the period under section 4980B(f)(4).

“(C) SPECIAL RULES FOR AGRICULTURAL AND RAILWAY LABOR.—If such recipient is an employee to whom subparagraph (A) or (B) of section 51(h)(1) applies, rules similar to the rules of such subparagraphs shall apply except that—

“(i) such subparagraph (A) shall be applied by substituting ‘\$10,000’ for ‘\$6,000’, and

“(ii) such subparagraph (B) shall be applied by substituting ‘\$833.33’ for ‘\$500’.

“(c) LONG-TERM FAMILY ASSISTANCE RECIPIENTS.—For purposes of this section—

“(1) IN GENERAL.—The term ‘long-term family assistance recipient’ means any individual who is certified by the designated local agency (as defined in section 51(d)(10))—

“(A) as being a member of a family receiving assistance under a IV-A program (as defined in section 51(d)(2)(B)) for at least the 18-month period ending on the hiring date,

“(B)(i) as being a member of a family receiving such assistance for 18 months beginning after the date of the enactment of this section, and

“(ii) as having a hiring date which is not more than 2 years after the end of the earliest such 18-month period, or

“(C)(i) as being a member of a family which ceased to be eligible after the date of the enactment of this section for such assistance by reason of any limitation imposed by Federal or State law on the maximum period such assistance is payable to a family, and

“(ii) as having a hiring date which is not more than 2 years after the date of such cessation.

“(2) HIRING DATE.—The term ‘hiring date’ has the meaning given such term by section 51(d).

“(d) CERTAIN RULES TO APPLY.—

“(1) IN GENERAL.—Rules similar to the rules of section 52, and subsections (d)(11), (f), (g), (i) (as in effect on the day before the date of the enactment of the Taxpayer Relief Act of 1997), (j), and (k) of section 51, shall apply for purposes of this section.

“(2) CREDIT TO BE PART OF GENERAL BUSINESS CREDIT, ETC.—References to section 51 in section 38(b), 280C(a), and 1396(c)(3) shall be treated as including references to this section.

“(e) COORDINATION WITH WORK OPPORTUNITY CREDIT.—If a credit is allowed under this section to an employer with respect to an individual for any taxable year, then for purposes of applying section 51 to such employer, such individual shall not be treated as a member of a targeted group for such taxable year.

“(f) TERMINATION.—This section shall not apply to individuals who begin work for the employer after April 30, 1999.”.

(b) CLERICAL AMENDMENT.—The table of sections for subpart F of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 51 the following new item:

“Sec. 51A. Temporary incentives for employing long-term family assistance recipients.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to individuals who begin work for the employer after December 31, 1997. 26 USC 51A note.

~~TITLE IX MISCELLANEOUS PROVISIONS~~

~~Subtitle A Provisions Relating to Excise Taxes~~

~~SEC. 901. GENERAL REVENUE PORTION OF HIGHWAY MOTOR FUELS TAXES DEPOSITED INTO HIGHWAY TRUST FUND.~~

~~(a) IN GENERAL. Paragraph (4) of section 9503(b) (relating to certain additional taxes not transferred to Highway Trust Fund) is amended to read as follows:~~

~~“(4) CERTAIN TAXES NOT TRANSFERRED TO HIGHWAY TRUST FUND. For purposes of paragraphs (1) and (2), there shall not be taken into account the taxes imposed by—~~

~~“(A) section 4041(d);~~